

CONTROLLER ALERT: Hurricane Sandy Disaster Relief Internal Controls

Controller Alerts are designed to bring your attention to emerging financial management issues that may require agency attention or action. These Alerts are intended to make sure that the Chief Financial Officer (CFO) community is aware of key issues where the Office of Management and Budget (OMB) believes further action may be warranted, but do not constitute official guidance or include specific tasks for agencies beyond consideration of appropriate steps to address the issue. Additional Controller Alerts can be viewed at <https://max.omb.gov/community/x/ihXjJg>.

This Controller Alert provides advance notification of forthcoming OMB Guidance on Hurricane Sandy Disaster Relief Internal Controls.

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, Public Law 113-2 (127 Stat. 4) (Act), which provides a total of \$50.5 billion in aid for Hurricane Sandy disaster victims and their communities. The Act requires Federal agencies supporting Sandy recovery and other disaster-related activities to implement additional internal controls to prevent waste, fraud, and abuse of these funds. By March 31, 2013, each Federal agency is required to submit an internal control plan to OMB, the Government Accountability Office (GAO), and its respective Inspector General. Agencies should provide draft plans to OMB on March 15, 2013. By June 30, 2013, GAO will also review the Agency internal control plans.

Additional Internal Controls for Sandy-related Activities

The Act requires agencies to augment their existing internal controls (including those under Circular A-123) to address any additional risks associated with the Act's recovery-related program activities. The forthcoming OMB guidance will outline minimum requirements for agency internal control plans for programs with funds provided under the Act, such as:

- **Conducting Additional Levels of Review:** Adopt more expansive review procedures to scrutinize award decisions, payment transactions, and other critical process elements that impact the use of Sandy funds. Include senior level officials (e.g., the Deputy Secretary) in these reviews, as appropriate, to ensure a higher degree of accountability as well as other officials (e.g., Assistant Secretaries in other program areas) who could serve as peer reviewers of award decisions.
- **Increasing Monitoring and Oversight of Grant Recipients:** Increase the frequency and specificity of grantee reporting, conduct additional site visits, and provide additional technical assistance and training to recipients of Federal funding as appropriate to mitigate risk.
- **Enhancing Collaboration with the Inspector General Community:** Engage more frequently and earlier on with Inspectors General on programs with funds provided under the Act and activities to identify and mitigate potential risk.
- **Expediting Review and Resolution of Audit Findings:** Be aware of all audit findings (GAO, IG, single audit) and ensure all findings are resolved within six months after completion of the audit. Avoid granting extension requests for audit report submissions. Explore the feasibility of conducting certain audit activities to review

internal control procedures (either within agency headquarters or in the field) *prior to* funding the activity.

- **Adopting Improper Payments Management Protocol:** Manage all funding provided under the Act with the same discipline and rigor as programs that are traditionally designated as high-risk for improper payments, as described in the section below.

Improper Payments

Section 904(b) of the Act provides that all programs and activities receiving funds under this Act shall be deemed to be “susceptible to significant improper payments” for the purposes of IPIA, notwithstanding IPIA section 2(a).^[1] Simply put, all Federal programs or activities receiving funds under this Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate.

The forthcoming OMB guidance will address how agencies should report an improper payment rate for these programs.

Management of Unexpended Grants Funds

The Act requires each grantee to expend an award made under the Act within the 24-month period following the agency’s obligation of grant funds. The forthcoming OMB guidance will outline how agencies will implement this requirement and the process for seeking a waiver from OMB or an extension of this period for certain expenditures.

Transparency and Accountability of Federal Spending

Agencies currently provide federal spending information to the USAspending.gov web site. To ensure agency accountability of funds, the forthcoming OMB guidance will outline how agencies will track and account for obligations and outlays of funds made available under the Act. This may include establishing specific Catalog for Federal Domestic Assistance (CFDA) numbers for funding provided under the Act.

Internal Control Plan Submission

Draft and final internal control plans for Federal programs administering Sandy-related funding will be due to OMB on March 15, 2013 and on March 31, 2013, respectively. Please direct any questions to Mike Wetklow at mwetklow@omb.eop.gov.

^[1] The Improper Payments Information Act of 2002 (IPIA; Public Law 107-300), as amended, and OMB implementing guidance (OMB Circular A-123, Appendix C, Parts I and II) require agencies to identify programs that are susceptible to significant improper payments (i.e., at high risk for errors). For programs that have been identified as susceptible, Agencies are then required to obtain and report a statistically valid estimate of the annual amount of improper payments for those programs (as well as meet other requirements set forth in IPIA and OMB guidance).